

**Internal Revenue Service**

**Department of the Treasury**

District  
Director

P.O. Box 2508, Cincinnati, OH 45201

Person to Contact:

Telephone Number:

Refer Reply to:

RP/EO

Date:

**JAN 10 1986**

*no protest rec'd  
2-27-86*

Dear Sir or Madam:

- We have considered your application for recognition of exemption from Federal income tax under the provisions of sections 501(c)(5) and 501(c)(20) of the Internal Revenue Code of 1954 and its applicable Income Tax Regulations. Based on the available information, we have determined that you do not qualify for the reasons set forth on Enclosure 1.

Consideration was given to whether you qualify for exemption under other subsections of section 501(c) of the Code and we have concluded that you do not.

As your organization has not established exemption from Federal income tax, it will be necessary for you to file an annual income tax return on Form 1120.

If you are in agreement with our proposed denial, please sign and return one copy of the enclosed Form 6018, Consent to Proposed Adverse Action.

You have the right to protest this proposed determination if you believe that it is incorrect. To protest, you should submit a written appeal giving the facts, law and other information to support your position as explained in the enclosed Publication 892 (Rev. 7-83), "Exempt Organizations Appeal Procedures for Unagreed Issues". The appeal must be submitted within 30 days from the date of this letter and must be signed by one of your principal officers. You may request a hearing with a member of the office of the Regional Director of Appeals when you file your appeal. If a hearing is requested, you will be contacted to arrange a date for it. The hearing may be held at the Regional Office, or, if you request, at any mutually convenient District Office. If you are to be represented by

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[REDACTED]

someone who is not one of your principal officers, he or she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements as set forth in Section 601.502 of the Statement of Procedural Rules. See Treasury Department Circular No. 230.

If we do not hear from you within the time specified, this will become our final determination.

Sincerely yours,

[REDACTED]

Enclosures: 3

Enclosure I

[REDACTED]

On the application for exemption you submitted you indicated that you were formed [REDACTED] under a Constitution and bylaws. You submitted the [REDACTED] Constitution of your national union and [REDACTED] By-Laws for your local union. You did not submit any documents which formally created the fund for which you are applying for exemption. You have no written instrument by which you were created.

You are paying the legal fees for the [REDACTED] in a libel suit filed by an outside contractor. You formed the "Defense Fund" to avoid using Union funds to pay legal fees incurred in the lawsuit against the local union, one of its officers, and one other member of the local. Contributions received will be used to pay for legal fees and to purchase pre-trial depositions from witnesses. Any members of [REDACTED], [REDACTED] who become a defendant in the present lawsuit will have their attorney's fees paid from the defense fund.

You do not have members. You simply collect voluntary contributions from members of your local union which you use to pay the legal fees described above.

Section 501(c)(5) of the Code provides for the exemption from Federal income tax of labor, agricultural or horticultural organizations.

Section 1.501(c)(5)-1(a) of the Regulations states that the organizations contemplated by section 501(c)(5) of the Code as entitled to exemption from income taxation are those which:

- (1) Have no net earnings inuring to the benefit of any member;  
and
- (2) Have as their objects the betterment of the conditions of - those engaged in such pursuits, the improvement of the grade of their products, and the development of a higher degree of efficiency in their respective occupations.

You are not an organization because you are not properly organized. You have no written instrument by which you were created. Because you have no authority to represent or speak for members in matters relating to their employment such as wages, hours of labor, working conditions, or economic benefits, you are not a "labor organization" in the commonly accepted sense of that term as it is used in section 501(c)(5) of the Code. You do not directly support the efforts of any labor organization to better employment conditions. You

Enclosure I con't

[REDACTED]

were formed for the purpose of voluntarily paying legal fees to defend your local union and two union members in a libel suit. You do not make these payments with the objective of bettering conditions of employment. Accordingly, you do not qualify as a labor organization described in section 501(c)(5) of the Code.

Section 501(c)(20) of the Code provides for the exemption from Federal income tax of an organization or trust created or organized in the United States, the exclusive function of which is to form part of a qualified group legal services plan or plans, within the meaning of section 120. An organization or trust which receives contributions because of section 120(c)(5)(C) shall not be prevented from qualifying as an organization described in this paragraph merely because it provides legal services or indemnification against the cost of legal services unassociated with a qualified group legal service plan.

Section 120(b) of the Code states that a qualified group legal services plan is a separate written plan of an employer for the exclusive benefit of his employees or their spouses or dependents to provide such employees, spouses or dependents with specified benefits consisting of personal legal services through prepayment of, or provision in advance for, legal fees in whole or in part by the employer, if the plan meets the requirements of subsection (c).

You do not qualify as an organization or trust whose exclusive function is to form part of a qualified group legal services plan within the meaning of section 120 of the Code. You are not an organization created to receive contributions from an employer who makes these contributions in order to provide his employees with benefits consisting of personal legal services. Accordingly, you are not an organization of the type described in section 501(c)(20) of the Code.